SaskTel

Consolidated Financial Statements of

SASKATCHEWAN TELECOMMUNICATIONS INTERNATIONAL, INC.

December 31, 2009

Saskatchewan Telecommunications International Inc. (SaskTel International)

www.sasktel-international.com

SaskTel International (SI), a wholly-owned subsidiary of SaskTel, helps their clients in countries around the world to develop, improve and expand their telecommunications systems by providing a variety of consulting services. SI also offers innovative software solutions that provide a modular approach to managing every aspect of a telecommunications network. SI's experience spans more than 30 countries across six continents. SI currently has strategic initiatives underway in both the United States and Caribbean markets which continue to facilitate new revenue generating opportunities and strategic partnerships. SI employs 35 people.

President's Message

Through 2009, SaskTel International continued to grow its business despite the slowdown in the global economy. 2009 profits were up substantially over 2008 with the software business being the key growth driver throughout the year. SI continued to focus on cost reduction and operational productivity improvement initiatives.

Key SI highlights in 2009 included: conclusion of the TTCL Management Contract and further expansion of its telecom consulting practice into the Caribbean and North American Markets. The TRACS technology refresh project was concluded by year end and ready for client implementation in 2010. SI signed a partnership agreement with IBM to support product software development in order to improve SI's time to market capabilities. Due to further consolidation in the US telecom industry, SI client growth further drove increased demand for SI IT consulting services. This growth is expected to continue through 2010.

For 2010; product and technology evolution will continue to be a key focus through 2010 as the organization begins to further align its software products to address both industry and client Operational Support System (OSS) needs and challenges. SI will also focus on expanding its OSS product suite to include other complimentary products that further align with its existing products and add increased value to both existing and prospective clients. An expanded focus in the North American and Caribbean Markets through SI's telecom consulting practice will be the key focus for business and client growth due to significant gains realized to date.

SI looks forward to working with our clients through 2010 by continually finding solutions which improve their competitive capabilities and overall operational efficiency. Celebrating its 24th anniversary in 2010, SI will continue to solidify its position in the global telecom software and consulting segment.

Steve Sousa

President, SaskTel International

KPMG

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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Telecommunications International, Inc. as at December 31, 2009 and the consolidated statements of operations and comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 1, 2010

Consolidated Statement of Operations and Comprehensive Income

For the year ended December 31, (Thousands of dollars)	2009	2008
Sales and consulting revenue	$14,046	$11,689
Direct expenses	9,665	8,163
Gross profit	4,381	3,526
Operating expenses	2,853	2,272
Income from operations	1,528	1,254
Other items	23	166
Net income	1,551	1,420
Other comprehensive income	-	-
Comprehensive income	$1,551	$1,420

See accompanying notes

Consolidated Statement of Retained Earnings

For the year ended December 31, (Thousands of dollars)	2009	2008
Retained earnings, beginning of year	$3,670	$2,850
Net income	1,551	1,420
	5,221	4,270
Dividends	2,468	600
Retained earnings, end of year	$2,753	$3,670

See accompanying notes

Consolidated Statement of Financial Position

As at December 31, (Thousands of dollars)	**2009**	2008
Assets		
Current assets		
Cash and short-term investments (Note 5)	**$6,130**	$4,499
Accounts receivable (Note 10a)	**492**	996
Work in process	**-**	260
Prepaid expenses	**18**	189
	6,640	5,944
Property, plant and equipment (Note 6)	**125**	157
Intangible assets – finite life (Note 7)	**707**	950
	$7,472	$7,051
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 10a)	**$1,229**	$1,644
Services billed in advance	**22**	137
Dividend payable	**2,468**	600
	3,719	2,381
Shareholder's equity		
Share capital (note 8)	**1,000**	1,000
Retained earnings	**2,753**	3,670
	3,753	4,670
	$7,472	$7,051

See accompanying notes

On behalf of the Board

Robert Watson

Mike Anderson

Consolidated Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2009	2008
Operating activities		
Net income	**$1,551**	$1,420
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	**286**	81
Net change in non-cash working capital (Note 10b)	**405**	188
Cash provided by operating activities	**2,242**	1,689
Investing activities		
Property, plant and equipment expenditures	**(11)**	(6)
Cash used in investing activities	**(11)**	(6)
Financing activities		
Dividends paid	**(600)**	-
Cash used in financing activities	**(600)**	-
Increase in cash	**1,631**	1,683
Cash and cash equivalents, beginning of year	**4,499**	2,816
Cash and cash equivalents, end of year	**$6,130**	$4,499
Comprised of:		
Cash	**$53**	$114
Short-term investments	**6,077**	4,385
	$6,130	$4,499

See accompanying notes

Notes to Consolidated Financial Statements

Note 1 – The Corporation

Saskatchewan Telecommunications International, Inc. (the Corporation) is incorporated under the laws of the Province of Saskatchewan. The Corporation is a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco) with the mandate of pursuing core telecommunications business opportunities worldwide.

The financial results of the Corporation are included in the consolidated financial statements of Holdco. As a wholly owned subsidiary of Holdco, a Saskatchewan Provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 – Change in accounting policies

Effective January 1, 2009, the Corporation adopted the accounting recommendations for goodwill and intangible assets (Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064) in accordance with the transition provisions of the section. This section requires intangible assets to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria, and provides further information on the recognition of internally generated intangible assets. The Corporation has implemented these changes with no impact on the financial statements of the Corporation.

Note 3 – Summary of significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada (GAAP). The most significant policies are outlined below.

Subsidiaries and investments

The consolidated financial statements include the accounts of the Corporation and its subsidiaries with all significant intercompany transactions and balances being eliminated. Investments in companies in which the Corporation has significant influence are accounted for by the equity method.

Declines in value below cost, of investments held using the equity method, are recognized as a charge to income when such declines are considered to be other than temporary.

The Corporation owns 100% of Battleford International, Inc., 100% of SaskTel International Consulting, Inc. and 100% of Saskatchewan Telecommunications International (Tanzania) Limited; non-operating entities.

Notes to Consolidated Financial Statements

Note 3 – Summary of significant accounting policies, continued

Cash and short-term investments

Cash and short-term investments include interest bearing investments with Holdco that are due on demand and are stated at fair value.

Work in process

Work in process is valued at the lower of cost and net realizable value.

Property, plant and equipment

Office furniture and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis over the estimated useful life of the asset.

Asset	Estimated useful life
Office furniture and equipment	4 – 17 years

Intangible assets - finite-life

The Corporation follows the policy of capitalizing related equipment, labour and installation costs related to the development of new software. These costs are then amortized from the date the asset is substantially completed and put into productive use. Amortization is calculated on a straight-line basis over the estimated useful life of the asset.

Asset	Estimated useful life
Software	4 years

Finite-life intangible assets are tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. They are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value.

Revenue recognition

Operating revenues for perpetual licenses are recognized on delivery or according to the terms of the license agreement. Where the arrangement includes multiple elements, perpetual license revenues are recognized on delivery, provided the undelivered elements are not essential to the functionality of the license and the Corporation has evidence of fair value for all the undelivered items. If payment is subject to customer acceptance, revenue is not recognized until customer acceptance or expiration of the acceptance period. Support and maintenance fees are recognized over the term of the contract. Fees for professional services, other than in the context of multiple element arrangements are recognized as services are rendered.

Revenues for turn-key telecommunication projects and consulting services are recognized using the percentage of completion method or the achievement of contract milestones. Amounts billed or paid in advance of services provided are recorded as services billed in advance.

Notes to Consolidated Financial Statements

Note 3 – Summary of significant accounting policies, continued

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Financial instruments

Upon initial recognition, financial instruments are measured at fair value and are classified as held-to-maturity, held-for-trading, available-for-sale, loans and receivables or other liabilities. Held-to-maturity assets are carried at amortized cost with amortized premiums or discounts and other than temporary losses due to impairment included in net income. Held-for-trading assets and liabilities are carried at fair value with any gains or losses included in net income. Available-for-sale assets are carried at fair value with revaluation gains or losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, and other liabilities are accounted for at amortized cost using the effective interest method. Transaction costs are included in the initial carrying value of the financial instrument except for held-for-trading instruments in which case they are expensed as incurred.

Derivative financial instruments are used by the Corporation in the management of its financial exposures as deemed appropriate, and based on the risk management strategy of the Corporation. The Corporation's policy is not to use derivative financial instruments for trading or speculative purposes.

The Corporation, from time to time, is party to certain derivative financial instruments, principally forward foreign exchange contracts (used to manage foreign currency exposures).

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

For fair value hedges, changes in the fair value of the derivatives and corresponding changes in fair value of the hedged items attributed to the risk being hedged will be recognized in net income. For cash flow hedges, the effective portion of the changes in the fair values of the derivative instruments will be recorded in other comprehensive income until the hedged items are recognized in net income.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of property, plant and equipment, intangible assets, and accounts receivable and the underlying provision for bad debts. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Notes to Consolidated Financial Statements

Note 4 – Accounting policy developments

International Financial Reporting Standards (IFRS)

The CICA Accounting Standards Board has confirmed that publicly accountable enterprises will be required to adopt IFRS in place of GAAP for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. The Public Sector Accounting Board (PSAB) in September 2009, approved an amendment to the introduction to the Public Sector Accounting Handbook which requires Government Business Enterprises (GBEs) to adopt IFRS and Other Government Organizations (OGOs) to adopt either IFRS or the public sector handbook, whichever is considered the most appropriate basis of accounting. The Corporation, as a GBE, is proceeding with adoption of IFRS.

The Corporation has commenced an IFRS conversion project including initiating the development of high level IFRS implementation plans that include stakeholder identification, milestones and deadlines, planned scope and approach, risks and mitigations, project governance and accountability responsibilities, and resource requirements. An external advisor has been engaged to assist with the development of plans and to perform a detailed review of major differences between current GAAP and IFRS. Board members have been briefed on IFRS, in general, and project plans have been reviewed by the Board of Directors.

Management and staff from the Corporation have participated in detailed IFRS training seminars. Project teams have completed an initial assessment of those international financial reporting standards with the highest potential for impacts on the Corporation. Based on the analysis to date, potential significant areas of difference are related to asset impairment testing and financial statement disclosures. Working groups have been formed to review identified standards in detail and discuss specific issues as a basis for ensuring common understanding and, where possible, consistency in approaches to issue resolution. Selection of accounting policies has been finalized and the Corporation is in the final stages of determining the impact of IFRS on processes, systems, internal controls over financial reporting and disclosures, and future financial position and results of operations. IFRS financial statement presentation formats are being finalized in conjunction with Holdco. As part of the IFRS implementation, the Corporation plans to make changes to certain processes and systems to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

Note 5 – Cash and short-term investments

Short-term investments represent funds invested with Holdco at an interest rate of 0.28% (2008 – 2.00%).

Note 6 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2009	2008
				(Thousands of dollars)
Office furniture and equipment	**$406**	**$281**	**$125**	$157

Depreciation and amortization for the year totaled $43,067 (2008 - $60,966).

Notes to Consolidated Financial Statements

Note 7 – Intangible assets – finite life

	Cost	Accumulated amortization	Net book value 2009	2008
				(Thousands of dollars)
Software	**$970**	**$263**	**$707**	$950

Amortization for the year totaled $242,588 (2008 - $20,216).

Note 8 - Share capital and additional capital disclosures

a) Share capital

	2009	2008
		(Thousands of dollars)
Authorized-unlimited number of class A common shares Issued - 1,000,000 shares	**$1,000**	$1,000

b) Additional capital disclosures

The Corporation's objectives when managing capital are to ensure adequate capital to support the operations and growth strategies of the Corporation, and to ensure adequate returns to the shareholder.

The capital structure is determined in conjunction with the shareholder based on the approved business plans and dividend policy.

The Corporation monitors capital on the basis of cash available for distribution. Balances in excess of operating requirements are distributed to the shareholder.

The Corporation's strategy, which is to maintain sufficient cash for the continued development of target markets, is unchanged from 2008.

The Corporation is not subject to any externally imposed capital requirements.

Note 9 –Contingencies

In the normal course of operations, the Corporation may become involved in various claims and litigation. While the final outcome with respect to claims and litigation cannot be predicted with certainty, it is the opinion of management that any resolution would not have a material adverse effect on the Corporation's financial position or results of operations.

Notes to Consolidated Financial Statements

Note 10 – Additional financial information

a) Balance sheet

	2009	2008
	(Thousands of dollars)	
Accounts receivable		
Customer accounts receivable	**$410**	$948
Allowance for doubtful accounts	**-**	-
	410	948
Other	**82**	48
	$492	$996
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	**$702**	$1,144
Payroll and other employee-related liabilities	**527**	500
	$1,229	$1,644

b) Supplementary cash flow information

	2009	2008
	(Thousands of dollars)	
Net change in non-cash working capital		
Accounts receivable	**$504**	$38
Work in process	**260**	181
Prepaid expenses	**171**	(14)
Accounts payable and accrued liabilities	**(415)**	451
Services billed in advance	**(115)**	(468)
	$405	$188

Note 11 – Financial instruments

The Corporation's financial instruments include cash and short-term investments, accounts receivable, accounts payable and accrued liabilities, and dividend payable, which by their nature are subject to risks.

a) Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

Notes to Consolidated Financial Statements

Note 11 – Financial instruments, continued

The following table represents the carrying amounts and fair values of financial assets and liabilities measured at fair value or amortized cost:

(Thousands of dollars)		2009		2008	
Financial Instruments	Classification[1]	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial Assets					
Cash and short-term investments	HFT	**$6,130**	**$6,130**	$4,499	$4,499
Accounts receivable	LAR	**492**	**492**	996	996
Financial Liabilities					
Accounts payable and accrued liabilities	OL	**1,229**	**1,229**	1,644	1,644
Dividend payable	OL	**2,468**	**2,468**	600	600

[1] Classification details are:
HFT – held-for-trading
LAR – loans and receivables
OL – other liabilities

Determination of fair value

When the carrying amount of a financial instrument is the most reasonable approximation of fair value, reference to market quotations and estimation techniques is not required. The carrying values of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities and dividend payable approximate their fair values due to the short-term maturity of these financial instruments.

b) Currency risk

The Corporation is exposed to currency risk, primarily US dollars, through transactions with foreign customers, foreign suppliers and short-term foreign commitments. Assuming all other variables remained constant at December 31, 2009, currency fluctuations in excess of 1% would have a material impact on net income. Specifically, a 1% weakening in the Canadian dollar versus US dollar exchange rate would have a 4.6% favourable effect on net income while a 1% strengthening would have a 4.6% unfavourable effect on net income. The Corporation uses a combination of derivative financial instruments to manage these exposures when deemed appropriate. The Corporation does not actively trade derivative financial instruments.

c) Interest rate risk

The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on short-term investments. Assuming all other variables remained constant at December 31, 2009, a 10% (3 basis point) increase or decrease in interest rates would not have a material impact on net income.

d) Market risk

The Corporation is exposed to market risk on short-term investments. Fair value adjustments will fluctuate based on changes in market prices, however the fluctuations should not be significant due to the short term nature of the investments.

Notes to Consolidated Financial Statements

Note 11 – Financial instruments, continued

e) Credit risk

The Corporation is exposed to credit risk through its short-term investments and accounts receivable. Credit risk related to short-term investments is minimized by dealing with institutions that have strong credit ratings. Credit risk related to customer accounts receivable is minimized by evaluating customer credit risk and limiting credit availability when necessary.

The carrying amount of financial assets represents the maximum credit exposure as follows:

	2009	2008 (Thousands of dollars)
Cash and short-term investments	$6,130	$4,499
Accounts receivable	492	996
	$6,622	$5,495

The aging of customer receivables, which indicates potential impairment losses, is as follows:

	2009	2008 (Thousands of dollars)
Current	$393	$520
30-60 days past billing date	3	289
61-90 days past billing date	14	97
Greater than 90 days past billing date	-	42
Total	$410	$948

Provisions for credit losses are maintained and regularly reviewed by the Corporation, based on an analysis of the aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance account are as follows:

	2009	2008 (Thousands of dollars)
Allowance for doubtful accounts, opening balance	$-	$493
Provision for losses	121	-
Accounts written off	(121)	(493)
Allowance for doubtful accounts, closing balance	$-	$-

Notes to Consolidated Financial Statements

Note 11 – Financial instruments, continued

f) Liquidity risk

The following are the contractual maturities of financial liabilities, all of which are due within six months of the respective year ends:

December 31, 2009

	Carrying Amount	Contractual cash flows	6 mths or less
			(Thousands of dollars)
Accounts payable and accrued liabilities	$1,229	$1,229	$1,229
Dividend payable	2,468	2,468	2,468
	$3,697	$3,697	$3,697

December 31, 2008

	Carrying Amount	Contractual cash flows	6 mths or less
			(Thousands of dollars)
Accounts payable and accrued liabilities	$1,644	$1,644	$1,644
Dividend payable	600	600	600
	$2,244	$2,244	$2,244

Sufficient operating cash flows are expected to be generated to fund these contractual obligations. In addition, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows.

Note 12 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan, and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and Holdco (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2009	2008
		(Thousands of dollars)
Sales and consulting revenue	**$2,331**	$1,856
Direct and operating expenses	**672**	644
Other income	**23**	166
Accounts receivable	**16**	-
Accounts payable and accrued liabilities	**264**	905

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Ministry of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Notes to Consolidated Financial Statements

Note 12 – Related party transactions, continued

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.